

After the Sale

Moderator:

Stuart M. Weiss, Vice President, Wells Fargo Corp Trust Services

Panel:

Dave Persselin, Debt Administrator, City of San Jose

Eric Sandler, Deputy Director of Finance, San Diego County Water Authority

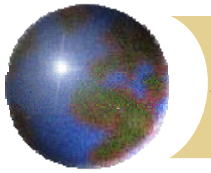
Tim Seufert, Director, NBS Local Government Solutions

Living with an Issue: On-Going Debt Administration

April 19, 2007

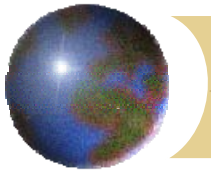
Long Beach, CA





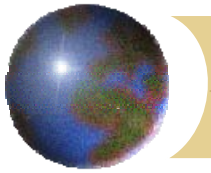
Investment of Bond Proceeds

- Principles of good investment management and understanding of inherent risks in investing bond proceeds critical
 - ❑ Establish good guidelines for permitted investments to reduce credit risk – **SAFETY**
 - ❑ Good cash flow estimates mitigate market risk – **LIQUIDITY**
 - ❑ Integration of knowledge of expected and future market conditions with other cash flows to reduce opportunity risk – **YIELD**



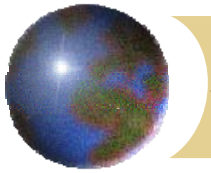
Investment of Bond Proceeds

- Initial investment – generally the *“easier part”*
 - ❏ Project cash flows
 - ❏ Capitalized Interest
 - ❏ Debt Service Reserve Fund
 - ❏ Cost of Issuance
- Reinvestment – generally the *“really hard part”*
 - ❏ Develop process to monitor and make reinvestment decisions
 - ❏ Use of cash flow expectations v. reality



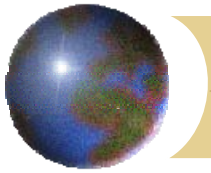
Trustee/Investment Agreement Oversight

- Get online access from day of closing
- Methodology for monitoring activity
 - ▣ Transfer of funds
 - ▣ Interest earnings appropriate credits
 - ▣ Tracking transactions subject to trustee fees
- Investment Agreements
 - ▣ Mark-to-market
 - ▣ Collateral requirements



Disbursement of Bond Proceeds

- Reimbursement or Trustee Disbursement
 - ▣ Contractor payments
 - ▣ City costs/reimbursements
- Liquidity of Investments in Construction Fund
 - ▣ Monitor security maturities
 - ▣ LAIF – rolling 30 day draw window
- Requisition
 - ▣ Sufficient detail to show qualified expenditures
 - ▣ Accuracy of expenditures and requisitions



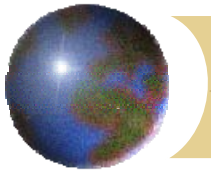
Disbursement of Bond Proceeds

● Cash Management

- ▣ Incoming wire for reimbursements
- ▣ Trustee wire payment to Contractor

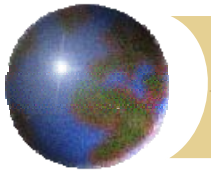
● Accounting Activities

- ▣ Appropriate recording of all activities in issuer's financial/accounting systems
- ▣ Disbursement of bond proceeds
- ▣ Record retention requirements different from "normal" accounts payable
- ▣ Special District Administration



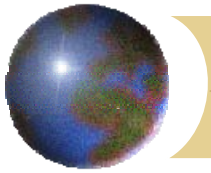
Bond Project Monitoring

- Critical to complete reinvestment activities
- Active involvement with project staff
 - Regular conversations
 - Understanding of current and future capital needs
- Review project encumbrance and expenditure needs
- Understand project delays
 - Implications for timely commencement of debt service
 - Develop contingency plan if significant project delays



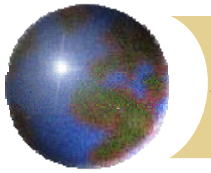
Arbitrage Rebate Compliance Activities

- Internal monitoring of rebate compliance
- Recommend annual calculations during construction period
 - Set aside annual rebate liability in Rebate Fund
 - Get it out of the Construction Fund
- Paying rebate is not bad, just need to monitor and pay as required
- Pay attention to requirements in Tax/Arbitrage Certificate



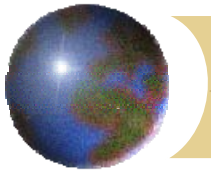
Debt Service Payments

- Identify responsible unit(s) for debt service activities
- Require Trustee/Fiscal Agent to send debt service invoice
 - Always verify amount
 - Verify any credits from reserve funds
- Ensure sufficient time for internal wire/check processing
- Work with investment/cash management staff, debt service critical component of any cash flow analysis



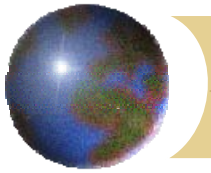
Bond Call/Redemption Management

- Follow Provisions in Indenture
 - ▣ Mandatory Redemption
 - Sinking Fund
 - Prepayments
 - ▣ Optional Redemption
 - ▣ Extraordinary Redemption
 - ▣ Bond Call Notices
- Track Source of Funds
- Principal Reductions
 - ▣ Reserve Requirement
 - ▣ Basis for administrative invoices



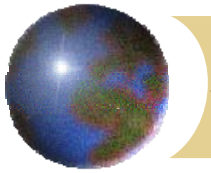
Budget Preparation & Monitoring

- Budget for all costs
- Annual Budgeting for Debt Service
 - Budget documents must provide documentation of annual budget and appropriation of debt service
 - Setting of rates and charges
- Budgeting for Variable Rate Debt
- Gross v. Net Debt Service
- Process for “cleaning out” debt service accounts at issuer level
 - How are reserve fund earnings treated?
 - Don't let funds accumulate
 - May become have tax/rebate ramifications



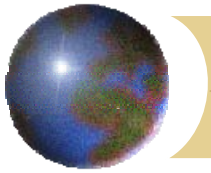
Compliance with Bond Covenants and Agreements

- Develop internal tickler system from beginning
- Keep up-to-date
- Don't reinvent the wheel with every deal; similar reporting requirements are okay and always preferred
- Keep as simple as possible
 - Consider providing multiple parties to deal the same compliance reports



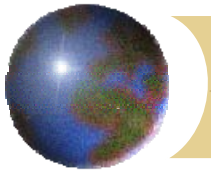
Land Based Financing – Special Items

- Prepare annual timeline
 - Trigger dates for CFD tax categories
 - Reporting due dates (E.g. R&T 163, CDIAC, SB 165, Disclosure, Arbitrage, etc...)
 - Foreclosure Covenant
 - County level submittal due dates



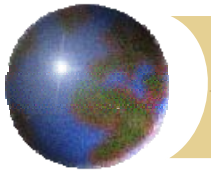
Continuing Disclosure Annual Reporting

- Designate key contact for disclosure decisions
- Contents of Annual Report
 - Issuer should decide contents
 - Annual Audits
 - Updated financial information – make this reasonable and based on reports currently producing
 - Material Event Disclosure – who?
- Use the CPO (www.disclosureUSA.com)
- Create universal e-mail address for reporting and noticing
 - Example: `debt.management@sanjoseca.gov`



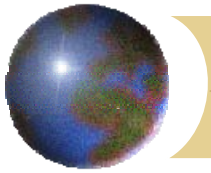
Credit/Liquidity Provider Administration

- Ultimate Credit - Determines Ratings
- Bond Insurance Premium
 - Up-front vs. Periodic Payment
- Prompt Invoice Payment for Liquidity Facilities
- Track expiration dates
 - LOC expiration
 - Commitment expiration
 - Stated amount expiration dates
- Research extension terms and fees to current market conditions; take into account internal costs
- Remarketing Agent/CP Dealer Key Player



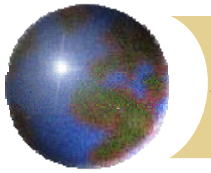
Contract Management -- Consultants & Service Providers

- Establish Contract Procedures
 - ▣ Contract Tracking
 - ▣ Database of Contracts and Consultants
- Track Payments and Encumbrances
 - ▣ Monitor accuracy of payments
 - ▣ Professional Services vs. Reimbursable Expenses
 - ▣ Encumbrances for Contracts
- Contract Payment Process
 - ▣ Internal Accounts Payable
 - ▣ Trustee Wire to Contractor



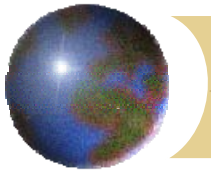
Land Based Financing – Special Items

- Annual Tax or Assessment Calculation – timing with County is key
- Determine the annual budget
 - Include updated debt payments
 - Identify administration costs
 - District is designed to be self-sufficient
- Calculate the taxes/assessments
 - Follow the RMA or Engineer's Report
 - Amount applied each year may vary
 - May need to obtain approval from governing body
 - Reconcile submitted amount with the County
- Proposition 218 Developments



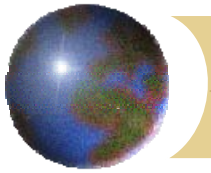
Annual Audit Activities

- Get CAFR in electronic form for Annual Disclosure Requirements
 - Make it a requirement of printer or auditor
- Work closely with Accounting Staff
 - Prepare appropriate Notes to Financial Statements
 - Keep data centralized
 - Report consistently same information in all financial/budget reports
 - Keep good records on source of data and calculation methods



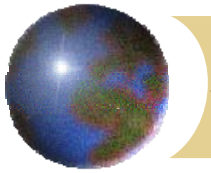
Refunding Analysis

- Part of overall good debt management
- Review in context of multiple factors:
 - ▣ New money needs
 - ▣ Consolidation of refunding candidates to increase savings, minimize workload
 - ▣ Saving thresholds
 - Preservation of one-time advance refunding opportunity
 - Generally minimum 3% NPV for advance refundings
 - ▣ Debt restructuring opportunities



Rating Agency/Investor Relations

- Develop relationships with ratings analysts and investors
 - Phone calls
 - Quarterly newsletters
 - Investor conferences
- Make their job easy by providing financial information in easy-to-use formats—coverage calculations and fund balances



Summary

- It is just you and the trustee in the end
- Must be active, diligent
- City of San Jose spends 75% of our debt management resources on monitoring debt portfolio
- Prepare periodic reports on debt management activities to elected officials, public and senior management
 - Comprehensive Annual Debt Report
 - Quarterly Debt Reports
 - Available online at: www2.csjfinance.org/

